

EAST UNION COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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East Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Mike Rollings	President	2006
Kenneth Hagen	Vice President	2006
David Waigand	Board Member	2005
Vickie Paulus	Board Member	2005
Lynn Kruse	Board Member	2007

Board of Education (After September 2005 Election)		
Mike Rollings	President	2006
Lynn Kruse	Vice President	2007
David Waigand	Board Member	2008
Shannon Harper	Board Member	2008
Kenneth Hagen	Board Member	2006

School Officials		
Steve Clark	Superintendent	2006
Kay Vaughn	Co-Board Treasurer	2006
Billie Jo Greene	Business Manager, Board Secretary & Co-Board Treasurer	2006
Sue Seitz	Attorney	2006

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Union Community School District, Afton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Union Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

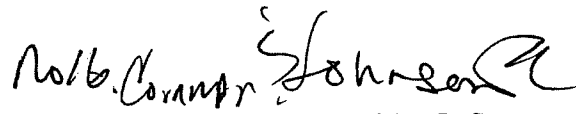
In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2006 on our consideration of East Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Union Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,685,573 in fiscal 2005 to \$4,823,951 in fiscal 2006, while General Fund expenditures increased from \$4,256,770 in fiscal 2005 to \$4,444,817 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$698,868 in fiscal 2005 to \$1,154,573 in fiscal 2006, a 65.21% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in regular instructional services.
- September 2005 Certified Enrollment count resulted in an increase of 17 students, representing a 3.94% increase compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of East Union Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Union Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
East Union Community School District Annual Financial Report

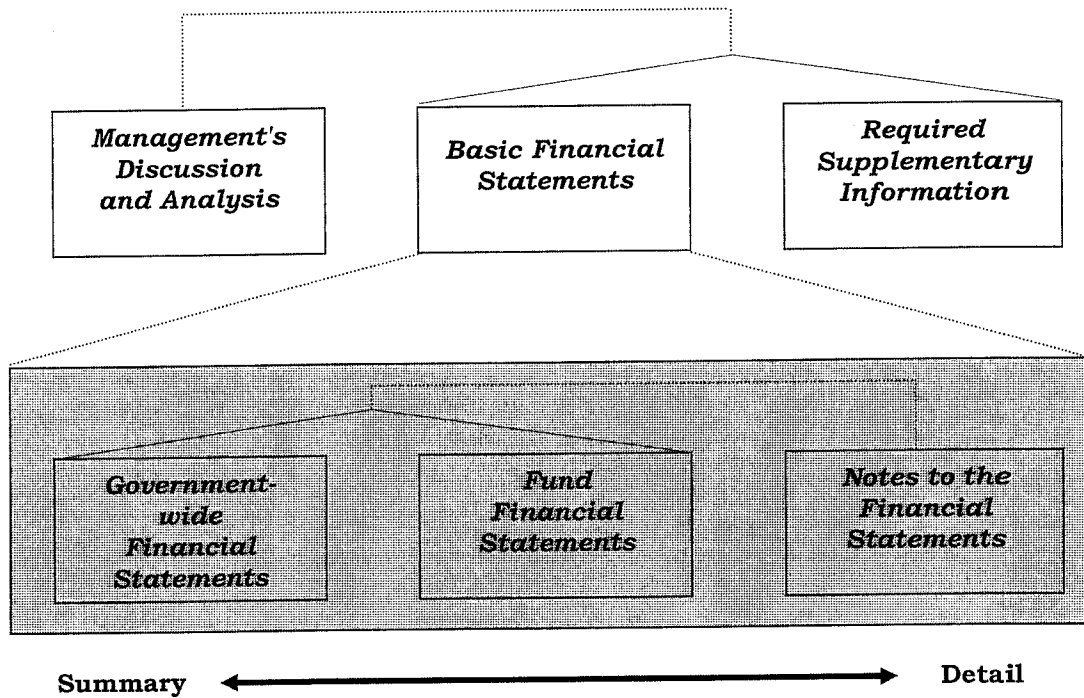


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 and on June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,746,484	4,476,764	23,806	27,172	4,770,290	4,503,936	5.91%
Capital assets	2,083,180	2,057,441	19,027	5,768	2,102,207	2,063,209	1.89%
Total assets	6,829,664	6,534,205	42,833	32,940	6,872,497	6,567,145	4.65%
Long-term obligations	1,258,954	1,406,957	0	0	1,258,954	1,406,957	-10.52%
Other liabilities	2,564,576	2,665,922	2,587	2,509	2,567,163	2,668,431	-3.80%
Total liabilities	3,823,530	4,072,879	2,587	2,509	3,826,117	4,075,388	-6.12%
Net assets:							
Invested in capital assets, net of related debt	1,523,497	1,404,307	19,027	5,768	1,542,524	1,410,075	9.39%
Restricted	202,472	233,206	0	0	202,472	233,206	-13.18%
Unrestricted	1,280,165	823,813	21,219	24,663	1,301,384	848,476	53.38%
Total net assets	\$ 3,006,134	2,461,326	40,246	30,431	3,046,380	2,491,757	22.26%

The District's combined net assets increased by 22.26% or \$554,623 over the prior year. A portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$30,734 or 13.18% under the prior year. The decrease was primarily due to the decrease in the fund balance of the Special Revenue, Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$452,908 or 53.38%. This was due to the controlled spending in the General Fund.

Figure A-4 shows the changes in the District's net assets for the year ended June 30, 2006, compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 453,780	458,820	118,769	117,159	572,549	575,979	-0.60%
Operating grants and contributions and restricted interest	802,840	1,050,104	106,720	97,747	909,560	1,147,851	-20.76%
General revenues:							
Property tax	1,819,953	1,733,688	0	0	1,819,953	1,733,688	4.98%
Local option sales and service tax	319,684	354,088	0	0	319,684	354,088	-9.72%
Unrestricted state grants	1,851,469	1,799,631	0	0	1,851,469	1,799,631	2.88%
Unrestricted interest	96,745	49,266	305	152	97,050	49,418	96.39%
Other general revenue	117,202	0	0	0	117,202	0	100.00%
Total revenues	5,461,673	5,445,597	225,794	215,058	5,687,467	5,660,655	0.47%
Program expenses:							
Governmental activities:							
Instructional	3,223,627	3,247,944	0	0	3,223,627	3,247,944	-0.75%
Support services	1,374,869	892,225	0	0	1,374,869	892,225	54.09%
Non-instructional programs	0	0	215,979	198,701	215,979	198,701	8.70%
Other expenses	318,369	270,128	0	0	318,369	270,128	17.86%
Total expenses	4,916,865	4,410,297	215,979	198,701	5,132,844	4,608,998	11.37%
Excess(deficiency) of revenues over							
Net assets beginning of year	2,461,326	1,426,026	30,431	14,074	2,491,757	1,440,100	73.03%
Net assets end of year	\$ 3,006,134	2,461,326	40,246	30,431	3,046,380	2,491,757	22.26%

Property tax and operating grants and contributions and restricted interest account for 54% of the total revenue. The District's expenses primarily relate to instruction and support services that account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,461,673 and expenses were \$4,916,865.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities		
	Total Cost	Net Cost
	of Services	of Services
Instruction	\$ 3,223,627	2,120,613
Support services	1,374,869	1,374,869
Other expenses	318,369	164,763
Totals	\$ 4,916,865	3,660,245

-
- The cost financed by users of the District's programs was \$453,780.
 - Federal and state governments subsidized certain programs with grants and contributions totaling \$802,840.
 - The net cost of governmental activities was financed with \$1,819,953 in local tax, \$319,684 in local option sales and service tax, \$1,851,469 in unrestricted state grants, \$96,745 in interest income and 117,202 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$225,794 and expenses were \$215,979. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the East Union Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,019,515, above last year's ending fund balances of \$1,651,873. The primary reason for the increase was the increase in the fund balance of the General Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$698,868 on June 30, 2005 to \$1,154,573 on June 30, 2006. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the local tax revenue during the year resulted in an increase in total revenues. An increase in instructional and support service expenditures increased the total expenditures for the year. However, revenues still exceeded expenditures ensuring the increase in the District's financial position.
- The Management fund balance decreased from \$15,072 in 2005, to \$4,472 in 2006, due to the increase in expenditures. These increases were attributable to the payout of early retirement incentives and the normal increase in the cost of property insurance.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$62,469 to \$37,238, due in part to the District purchasing a new vehicle during the year.
- The Capital Projects fund balance decreased during the current year, from \$440,805 to \$377,964. A transfer was made to the Debt Service Fund to pay for the general obligation bonds. This transfer was the cause for the decrease in the fund balance. The District also established two new Capital Projects funds for a track and playground. These funds were established through private donations.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$30,431 at June 30, 2005 to \$40,246 at June 30, 2006, representing an increase of approximately 33%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$104,455 more than budgeted revenues, a variance of 1.9%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$2,102,207, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.89% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$137,789.

The original cost of the District's capital assets was \$4,705,593. Governmental funds account for \$4,657,906 with the remainder of \$47,687 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the Machinery and equipment category. The Machinery and equipment totaled \$219,440 at June 30, 2006, compared to \$202,745 reported at June 30, 2005. This increase resulted from the purchases made during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 14,205	14,205	0	0	14,205	14,205	0.00%
Buildings	1,842,133	1,814,787	0	0	1,842,133	1,814,787	1.51%
Land improvements	26,429	31,472	0	0	26,429	31,472	-16.02%
Machinery and equipment	200,413	196,977	19,027	5,768	219,440	202,745	8.23%
Total	\$ 2,083,180	2,057,441	19,027	5,768	2,102,207	2,063,209	1.89%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$1,258,954 in general obligation bonds, compensated absences and early retirement. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The general obligation bonds, which are being paid from the Capital Project Fund, have a balance of \$1,250,000 as of June 30, 2006. Of this balance, \$155,000 of principal is due next year.

Early retirement has a balance of \$3,768 as of June 30, 2006. This balance is going to be paid from the Management Fund throughout the next year.

The District, at year end, had compensated absences of \$5,186, which are payable from the General Fund.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 1,250,000	1,395,000	-10.4%
Early retirement	3,768	7,536	-50.0%
Compensated absences	5,186	4,421	17.3%
Total	<u>\$ 1,258,954</u>	<u>1,406,957</u>	<u>-10.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Board Secretary/Treasurer, East Union Community School District, 1916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 581,191	0	581,191
Other	2,184,161	20,605	2,204,766
Receivables:			
Property tax:			
Delinquent	40,464	0	40,464
Succeeding year	1,555,463	0	1,555,463
Income surtax	183,957	0	183,957
Accounts	8,048	0	8,048
Other receivables	5,796	0	5,796
Due from other governments	187,223	0	187,223
Inventories	0	3,201	3,201
Accrued interest			
ISCAP(Note 4)	181	0	181
Capital assets, net of accumulated depreciation(Note 5)	2,083,180	19,027	2,102,207
TOTAL ASSETS	6,829,664	42,833	6,872,497
LIABILITIES			
Accounts payable	351,655	0	351,655
Salaries and benefits payable	35,748	0	35,748
Interest payable	21,564	0	21,564
ISCAP warrants payable(Note 4)	582,000	0	582,000
ISCAP premiums payable	4,429	0	4,429
ISCAP interest payable(Note 4)	148	0	148
Deferred revenue:			
Succeeding year property tax	1,555,463	0	1,555,463
Other	13,569	2,587	16,156
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	155,000	0	155,000
Early retirement	3,768	0	3,768
Compensated absences	5,186	0	5,186
Portion due after one year:			
General obligation bonds	1,095,000	0	1,095,000
TOTAL LIABILITIES	3,823,530	2,587	3,826,117
NET ASSETS			
Investment in capital assets, net of related debt	1,523,497	19,027	1,542,524
Restricted for:			
Talented and gifted	53,179	0	53,179
Physical plant & equipment levy	37,238	0	37,238
Management levy	706	0	706
Other special revenue purposes	111,349	0	111,349
Unrestricted	1,280,165	21,219	1,301,384
TOTAL NET ASSETS	\$ 3,006,134	40,246	3,046,380

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,876,725	60,448	623,934	(1,192,343)	0	(1,192,343)
Special instruction	553,149	0	25,300	(527,849)	0	(527,849)
Other instruction	793,753	393,332	0	(400,421)	0	(400,421)
	<u>3,223,627</u>	<u>453,780</u>	<u>649,234</u>	<u>(2,120,613)</u>	<u>0</u>	<u>(2,120,613)</u>
Support services:						
Student services	64,693	0	0	(64,693)	0	(64,693)
Instructional staff services	168,534	0	0	(168,534)	0	(168,534)
Administration services	431,148	0	0	(431,148)	0	(431,148)
Operation and maintenance of plant services	356,147	0	0	(356,147)	0	(356,147)
Transportation services	354,347	0	0	(354,347)	0	(354,347)
	<u>1,374,869</u>	<u>0</u>	<u>0</u>	<u>(1,374,869)</u>	<u>0</u>	<u>(1,374,869)</u>
Other expenditures:						
Facilities acquisitions	45,642	0	0	(45,642)	0	(45,642)
Long-term debt interest	44,628	0	0	(44,628)	0	(44,628)
AEA flowthrough	153,606	0	153,606	0	0	0
Depreciation(unallocated)*	74,493	0	0	(74,493)	0	(74,493)
	<u>318,369</u>	<u>0</u>	<u>153,606</u>	<u>(164,763)</u>	<u>0</u>	<u>(164,763)</u>
Total governmental activities	4,916,865	453,780	802,840	(3,660,245)	0	(3,660,245)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	215,979	118,769	106,720	0	9,510	9,510
Total business-type activities	<u>215,979</u>	<u>118,769</u>	<u>106,720</u>	<u>0</u>	<u>9,510</u>	<u>9,510</u>
Total	<u>\$ 5,132,844</u>	<u>572,549</u>	<u>909,560</u>	<u>(3,660,245)</u>	<u>9,510</u>	<u>(3,650,735)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,786,287	0	1,786,287
Capital outlay				33,666	0	33,666
Local option sales and service tax				319,684	0	319,684
Unrestricted state grants				1,851,469	0	1,851,469
Unrestricted investment earnings				96,745	305	97,050
Other general revenues				117,202	0	117,202
Total general revenues				<u>4,205,053</u>	<u>305</u>	<u>4,205,358</u>
Changes in net assets				544,808	9,815	554,623
Net assets beginning of year				2,461,326	30,431	2,491,757
Net assets end of year				<u>\$ 3,006,134</u>	<u>40,246</u>	<u>3,046,380</u>

* This amount excludes the depreciation that is included in the direct expense
of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP(Note 4)	\$ 581,191	0	0	0	581,191
Other	1,358,258	324,552	333,917	167,434	2,184,161
Receivables:					
Property tax					
Delinquent	38,493	0	0	1,971	40,464
Succeeding year	1,438,963	0	0	116,500	1,555,463
Income surtax	183,957	0	0	0	183,957
Accounts	7,968	0	0	80	8,048
Accrued interest					
ISCAP (Note 4)	181	0	0	0	181
Interfund	4,161	0	0	0	4,161
Other	5,796	0	0	0	5,796
Due from other governments	132,639	54,584	0	0	187,223
TOTAL ASSETS	\$ 3,751,607	379,136	333,917	285,985	4,750,645
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	0	0	4,161	4,161
Accounts payable	338,220	1,172	0	12,263	351,655
Salaries and benefits payable	35,748	0	0	0	35,748
ISCAP warrants payable (Note 4)	582,000	0	0	0	582,000
ISCAP premiums payable	4,429	0	0	0	4,429
ISCAP interest payable (Note 4)	148	0	0	0	148
Deferred revenue:					
Succeeding year property tax	1,438,963	0	0	116,500	1,555,463
Income surtax	183,957	0	0	0	183,957
Other	13,569	0	0	0	13,569
Total liabilities	2,597,034	1,172	0	132,924	2,731,130
Fund balances:					
Reserved for:					
Debt service	0	0	333,917	0	333,917
Talented and gifted	53,179	0	0	0	53,179
Unreserved:					
General	1,101,394	0	0	0	1,101,394
Capital projects	0	377,964	0	0	377,964
Physical plant and equipment levy	0	0	0	37,238	37,238
Management levy	0	0	0	4,474	4,474
Other special revenue	0	0	0	111,349	111,349
Total fund balances	1,154,573	377,964	333,917	153,061	2,019,515
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,751,607	379,136	333,917	285,985	4,750,645

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 2,019,515
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	2,083,180
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(21,564)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	183,957
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,258,954)</u>
Net assets of governmental activites (page 13)	<u>\$ 3,006,134</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,740,631	0	0	78,508	1,819,139
LOSST	0	319,684	0	0	319,684
Tuition	60,448	0	0	0	60,448
Other	368,563	17,457	7,868	136,820	530,708
State sources	2,258,556	0	0	0	2,258,556
Federal sources	395,753	0	0	0	395,753
Total revenues	4,823,951	337,141	7,868	215,328	5,384,288
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,830,232	289	0	30,801	1,861,322
Special instruction	552,802	0	0	0	552,802
Other instruction	660,518	0	0	133,235	793,753
	3,043,552	289	0	164,036	3,207,877
Support services:					
Student services	60,926	0	0	7,535	68,461
Instructional staff services	163,014	0	0	0	163,014
Administration services	431,359	0	0	0	431,359
Operation and maintenance of plant services	337,719	0	0	17,523	355,242
Transportation services	254,641	0	0	60,138	314,779
	1,247,659	0	0	85,196	1,332,855
Other expenditures:					
Facilities acquisitions	0	206,641	0	0	206,641
Long-term debt:					
Principal	0	0	145,000	0	145,000
Interest	0	0	47,238	0	47,238
AEA flowthrough	153,606	0	0	0	153,606
	153,606	206,641	192,238	0	552,485
Total expenditures	4,444,817	206,930	192,238	249,232	5,093,217
Excess(deficiency) of revenues over(under) expenditures	379,134	130,211	(184,370)	(33,904)	291,071
Other financing sources(uses):					
Other revenue	72,946	0	0	0	72,946
Transfers in	0	0	193,052	0	193,052
Transfers out	0	(193,052)	0	0	(193,052)
Sale of equipment and materials	3,625	0	0	0	3,625
Total other financing sources(uses)	76,571	(193,052)	193,052	0	76,571
Net change in fund balances	455,705	(62,841)	8,682	(33,904)	367,642
Fund balance beginning of year	698,868	440,805	325,235	186,965	1,651,873
Fund balance end of year	\$ 1,154,573	377,964	333,917	153,061	2,019,515

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 367,642

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year are as follows:

Capital expenditures	\$ 160,999	
Depreciation expense	(135,260)	25,739

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	145,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	2,610
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	814
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 3,768	
Compensated absences	(765)	3,003

Changes in net assets of governmental activities (page 14)	\$ 544,808
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SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 20,605
Inventories	3,201
Capital assets, net of accumulated depreciation(Note 5)	<u>19,027</u>
TOTAL ASSETS	<u>42,833</u>
 LIABILITIES	
Deferred revenues	<u>2,587</u>
 NET ASSETS	
Invested in capital assets	19,027
Unrestricted	<u>21,219</u>
 TOTAL NET ASSETS	<u><u>\$ 40,246</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 118,769
TOTAL OPERATING REVENUES	<u>118,769</u>
OPERATING EXPENSES:	
Food service operations:	
Salaries	103,411
Benefits	15,482
Services	0
Supplies	94,557
Depreciation	2,529
TOTAL OPERATING EXPENSES	<u>215,979</u>
OPERATING LOSS	<u>(97,210)</u>
NON-OPERATING REVENUES:	
Interest	305
State sources	2,899
Federal sources	103,821
TOTAL NON-OPERATING REVENUES	<u>107,025</u>
Change in net assets	9,815
Net assets at beginning of year	<u>30,431</u>
Net assets end of year	<u>\$ 40,246</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 118,318
Cash received from miscellaneous operating activities	529
Cash payments to employees for services	(118,893)
Cash payments to suppliers for goods or services	(86,116)
Net cash used in operating activities	<u>(86,162)</u>
Cash flows from non-capital financing activities:	
State grants received	2,899
Federal grants received	93,951
Net cash provided by non-capital financing activities	<u>96,850</u>
Cash flows from investing activities:	
Interest on investments	305
Net cash provided by investing activities	<u>305</u>
Cash flows from capital financing activities:	
Purchase of assets	(15,788)
Net cash used in capital financing activities	<u>(15,788)</u>
Net decrease in cash and cash equivalents	(4,795)
Cash and cash equivalents at beginning of year	<u>25,400</u>
Cash and cash equivalents at end of year	<u><u>\$ 20,605</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (97,210)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,870
Depreciation	2,529
Increase in inventories	(1,429)
Increase in deferred revenue	78
Net cash used in operating activities	<u><u>\$ (86,162)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 20,605</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$9,870

SEE NOTES TO FINANCIAL STATEMENTS.

EAST UNION COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The East Union Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Afton, Iowa, and the predominate agricultural territory in Union, Madison, Ringgold, and Clarke Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, East Union Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Union Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Union, Madison, Ringgold, and Clarke County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, no disbursements exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,764,262

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 193,052

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 581,191	181	582,000	148

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2006.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,205	0	0	14,205
Construction in progress	0	0	0	0
Total capital assets not being depreciated	14,205	0	0	14,205
Capital assets being depreciated:				
Buildings	3,504,546	96,796	0	3,601,342
Land improvements	111,865	0	0	111,865
Machinery and equipment	934,995	64,203	68,704	930,494
Total capital assets being depreciated	4,551,406	160,999	68,704	4,643,701
Less accumulated depreciation for:				
Buildings	1,689,759	69,450	0	1,759,209
Land improvements	80,393	5,043	0	85,436
Machinery and equipment	738,018	60,767	68,704	730,081
Total accumulated depreciation	2,508,170	135,260	68,704	2,574,726
Total capital assets being depreciated, net	2,043,236	25,739	0	2,068,975
Governmental activities capital assets, net	\$ 2,057,441	25,739	0	2,083,180
Business-type activities:				
Machinery and equipment	\$ 31,899	15,788	0	47,687
Less accumulated depreciation	26,131	2,529	0	28,660
Business-type activities capital assets, net	\$ 5,768	13,259	0	19,027

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 15,403
Special	347
Support services:	
Instructional staff services	5,520
Operation and maintenance	466
Transportation service	39,031
	<u>60,767</u>
Unallocated depreciation	<u>74,493</u>
Total governmental activities depreciation expense	<u>\$ 135,260</u>
Business-type activities:	
Food services	<u>\$ 2,529</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,395,000	0	145,000	1,250,000	155,000
Early retirement	7,536	0	3,768	3,768	3,768
Compensated absences	4,421	5,186	4,421	5,186	5,186
Total	<u>\$ 1,406,957</u>	<u>5,186</u>	<u>153,189</u>	<u>1,258,954</u>	<u>163,954</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

Year	Bond issue January 1, 2004			
Ending June 30,	Interest Rate	Principal	Interest	Total
2007	3.60 %	\$ 155,000	40,338	195,338
2008	3.60	165,000	34,578	199,578
2009	2.90	170,000	29,143	199,143
2010	3.15	180,000	23,842	203,842
2011	3.40	185,000	17,862	202,862
2012	3.65	195,000	11,158	206,158
2013	3.80	200,000	3,800	203,800
Total		<u>\$ 1,250,000</u>	<u>160,721</u>	<u>1,410,721</u>

Early Retirement

The District offers a voluntary early retirement plan, for one year only, to its licensed employees. Eligible employees must be between the ages of fifty-five and sixty-three, and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education, with only three being approved each year. Eligible employee early retirement incentives consists of a cash payment of \$14,000, less applicable withholdings.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$148,180, \$145,339, and \$143,220, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$153,606 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 2,729,979	119,074	2,849,053	2,782,510	2,782,510	66,543
State sources	2,258,556	2,899	2,261,455	2,237,117	2,237,117	24,338
Federal sources	395,753	103,821	499,574	486,000	486,000	13,574
Total revenues	5,384,288	225,794	5,610,082	5,505,627	5,505,627	104,455
Expenditures:						
Instruction	3,207,877	0	3,207,877	4,029,905	4,029,905	822,028
Support services	1,332,855	0	1,332,855	1,562,350	1,562,350	229,495
Non-instructional programs	0	215,979	215,979	284,362	284,362	68,383
Other expenditures	552,485	0	552,485	1,064,030	1,064,030	511,545
Total expenditures	5,093,217	215,979	5,309,196	6,940,647	6,940,647	1,631,451
Excess(deficiency) of revenues over(under) expenditures	291,071	9,815	300,886	(1,435,020)	(1,435,020)	1,735,906
Other financing sources, net	76,571	0	76,571	0	0	76,571
Excess(deficiency) of revenues and other financing sources over(under) expenditures	367,642	9,815	377,457	(1,435,020)	(1,435,020)	1,812,477
Balance beginning of year	1,651,873	30,431	1,682,304	1,435,020	1,435,020	247,284
Balance end of year	\$ 2,019,515	40,246	2,059,761	0	0	2,059,761

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTAL INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS				
Cash and pooled investments	\$ 7,509	36,393	123,532	167,434
Receivables:				
Property tax:				
Current year delinquent	1,126	845	0	1,971
Succeeding year	81,900	34,600	0	116,500
Accounts	0	0	80	80
TOTAL ASSETS	\$ 90,535	71,838	123,612	285,985
LIABILITIES AND FUND EQUITY				
Liabilities:				
Interfund payable	\$ 4,161	0	0	4,161
Accounts payable	0	0	12,263	12,263
Deferred revenue:				
Succeeding year property tax	81,900	34,600	0	116,500
	86,061	34,600	12,263	132,924
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	4,474	37,238	111,349	153,061
Total fund balances	4,474	37,238	111,349	153,061
TOTAL LIABILITIES AND FUND EQUITY	\$ 90,535	71,838	123,612	285,985

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Physical Plant & Manage- ment	Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
REVENUES:				
Local sources:				
Local tax	\$ 44,842	33,666	0	78,508
Other	419	1,241	135,160	136,820
TOTAL REVENUES	45,261	34,907	135,160	215,328
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	30,801	0	0	30,801
Other instruction	0	0	133,235	133,235
	30,801	0	133,235	164,036
Support services:				
Student support services	7,535	0	0	7,535
Operation and maintenance of plant services	17,523	0	0	17,523
Transportation	0	60,138	0	60,138
	25,058	60,138	0	85,196
TOTAL EXPENDITURES	55,859	60,138	133,235	249,232
Excess (deficiency) of revenues over (under) expenditures	(10,598)	(25,231)	1,925	(33,904)
Fund balance beginning of year	15,072	62,469	109,424	186,965
Fund balance end of year	\$ 4,474	37,238	111,349	153,061

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Class of 2009	\$ 0	255	22	233
Class of 2006	7,091	11,640	18,731	0
Class of 2007	1,212	17,461	12,919	5,754
Class of 2008	717	776	200	1,293
Concessions	1,563	358	271	1,650
Drama	3,141	3,019	2,279	3,881
FFA	10,531	7,458	8,661	9,328
FCCLA	2,335	3,114	2,361	3,088
Instrumental music	4,730	5,120	3,795	6,055
Now account interest	0	22	22	0
National honor society	311	0	174	137
Now account	0	0	0	0
PTO	30	5,900	5,906	24
Science club	2,031	294	735	1,590
Spanish club	1,289	0	0	1,289
Student council	7,787	9,689	16,222	1,254
Vocal music	11,178	14,464	9,444	16,198
Vocational agriculture	175	0	0	175
2005 yearbook	2,819	133	2,952	0
2006 yearbook	0	9,309	5,767	3,542
General athletics	32,153	34,894	33,077	33,970
MS student council	2,168	815	1,176	1,807
Drill team	78	0	0	78
MS boys basketball	756	0	396	360
MS football	941	0	(140)	1,081
MS baseball	294	0	164	130
MS boys track	366	0	(92)	458
MS wrestling	520	0	(98)	618
MS girls basketball	922	0	(91)	1,013
MS volleyball	279	0	(5)	284
MS softball	451	0	(16)	467
MS girls track	304	0	(109)	413
HS boys basketball	958	0	270	688
HS football	1,537	1,023	693	1,867
HS baseball	587	0	51	536
HS boys track	85	293	58	320
HS golf	1,120	0	(5)	1,125
HS wrestling	415	674	234	855
HS girls basketball	1,696	80	(304)	2,080
HS volleyball	397	1,876	2,074	199
HS softball	1,451	912	900	1,463
HS girls track	781	1,209	746	1,244
HS girls golf	1,120	223	289	1,054
Cross country	533	0	0	533
Weight room	1,666	0	559	1,107
Cheerleaders	906	4,149	2,947	2,108
Total	\$ 109,424	135,160	133,235	111,349

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,138,771	1,904,633	1,802,600	1,588,327
Tuition	60,448	45,634	62,243	73,670
Other	530,708	461,352	426,612	425,941
State sources	2,258,608	2,189,660	2,134,366	2,297,998
Federal sources	395,753	660,075	593,982	531,003
Total	<u>\$ 5,384,288</u>	<u>5,261,354</u>	<u>5,019,803</u>	<u>4,916,939</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,861,322	1,694,655	1,660,307	1,713,182
Special instruction	552,802	453,198	1,111,379	1,120,994
Other instruction	793,753	1,063,047	304,524	334,655
Support services:				
Student services	68,461	66,868	102,410	109,199
Instructional staff services	163,014	99,174	84,091	130,410
Administration services	431,359	386,224	419,226	432,822
Operation and maintenance of plant services	355,242	331,774	321,013	399,059
Transportation services	314,779	245,561	260,617	324,195
Non-instructional	0	0	0	749
Other expenditures:				
Facilities acquisitions	206,641	480,552	979,330	61,790
Long Term Debt:				
Principal	145,000	105,000	0	0
Interest	47,238	51,738	560	0
AEA flow-through	153,606	153,203	155,177	167,690
Total	<u>\$ 5,093,217</u>	<u>5,130,994</u>	<u>5,398,634</u>	<u>4,794,745</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 06	\$ 158,877
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	9,870
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	19,510
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	74,441
			93,951
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1970-G	109,329
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES- STATE GRANTS	84.186	FY 05	4,120
DRUG FREE GRANT	84.186	FY 06	3,836
			7,956
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES (TITLE V PROGRAM)	84.298	FY 06	1,519
RURAL EDUCATION ACHIEVEMENT			
PROGRAM (REAP)	84.358	FY 06	17,372
TITLE IIA - FEDERAL TEACHER QUALITY			
PROGRAM	84.367	FY 05	44
TITLE IIA - FEDERAL TEACHER QUALITY			
PROGRAM	84.367	FY 06	31,165
			31,209
GRANTS FOR STATE ASSESSMENTS AND			
RELATED ACTIVITIES	84.369	FY 06	2,604

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES PART B	84.027	FY 06	<u>25,300</u>
VOCATIONAL EDUCATION			
BASIC GRANTS TO STATE	84.048	FY 06	<u>7,303</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
CENTERS FOR DISEASE CONTROL AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE	93.283	FY 06	<u>4,046</u>
CHILD CARE DEVELOPMENT			
BLOCK GRANT	93.575	FY 06	<u>34,061</u>
NATIONAL FOUNDATION OF THE ARTS:			
PROMOTION OF THE ARTS			
PARTNERSHIP AGREEMENTS	45.025	FY 06	<u>200</u>
TOTAL			<u>\$ 503,597</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the East Union Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
East Union Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Union Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Union Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of East Union Community School District and other parties to East Union Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 18, 2006

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
East Union Community School District

Compliance

We have audited the compliance of East Union Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. East Union Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of East Union Community School District's management. Our responsibility is to express an opinion on East Union Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Union Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on East Union Community School District's compliance with those requirements.

In our opinion, East Union Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of East Union Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered East Union Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

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our judgment, could adversely affect East Union Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Union Community School District and other parties to whom East Union Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

September 18, 2006

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.287 - Twenty First Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Union Community School District did not qualify as a low-risk auditee.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the General Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District will follow the auditor's recommendation.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.287: 21st Century Community Learning Center
Federal Award Year: 2006
U.S. Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 did not exceed the amount budgeted in the non-instructional and other expenditures functional area.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Rollings, Board President Owner of Mikes Service Lawn Care	Mowing- per bid	\$1,960

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member does not appear to be a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.